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Project No. 42.1067

Some Aspects of Chinese Communist and Japanese Trade

9 April 1956

*IP-438*

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## I. Sino-Japanese Trade

### A. Japan's prewar trade with Mainland China

The Japanese had developed a substantial trade with Mainland China <sup>a/</sup> during the 1920's and early 1930's, before the seizure of Manchuria in 1931. After 1931 Manchuria and subsequently much of China became protected Japanese markets, which induced a large inflow of Japanese capital. As only an insignificant amount of capital goods was produced in Manchuria at this time, practically all capital goods had to be imported. The composition of Japanese exports to Manchuria, accordingly, changed radically as machinery and metals began to compete with textiles and foodstuffs as the major exports to mainland China. Simultaneously, the Manchurian market for consumer goods expanded, partly as a result of the rising purchasing power accompanying economic development. In return the Japanese obtained a secure source for many essential raw materials, particularly coal, pig iron, iron ore, salt, soybeans, and oil cake. By 1939, mainland China had become Japan's most important trading area.

This general increase in trade with the China mainland, however, concealed a noticeable decline in trade with the Republic of China. Violent anti-Japanese movements limited the Republic of China's trade with Japan.

Until the war years 1941-1945, when Japan was largely cut off from other sources of supply, Japanese exports to mainland China of textiles, steel, and capital equipment were only partially paid for by purchases of essential raw materials and foodstuffs. This export surplus was balanced primarily by Japanese investment in Manchuria and in other areas of China.

a. This term after 1932 refers to China, Manchuria, and Mantung

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Table 1

## Japanese Trade with Mainland China as Percent of Total Trade \*

Year	Exports as percent of Total Exports		Exports as percent of Total Exports	
	All China including Manchuria and Kwantung	Manchuria and Kwantung **	All China including Manchuria and Kwantung	Manchuria and Kwantung **
1926	22	--	14	--
1930	19	--	14	--
1936	18	14	11	7
1937	19	15	9	6
1938	30	22	15	11
1939	34	25	16	12
1940	35	22	16	9
1941	38	24	21	10
1942 ***	43	28	42	18
1943 ***	43	26	45	13

\* Total trade includes Japanese trade with Korea and Taiwan.

\*\* Trade recorded for Kwantung for the most part originated in or was destined for Manchuria and North China.

\*\*\* World War II years.

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**SECRET****B. Japan's Postwar Trade with Communist China**

Japanese postwar trade with Communist China has been relatively insignificant. Whereas in the period 1936-40 the Chinese mainland took approximately 30 percent by value of Japan's exports and provided 16 percent of Japan's imports, in 1950 mainland China took only 2.4 percent of Japan's exports and supplied but 4.1 percent of its imports. Sino-Japanese trade was almost completely stopped in 1951 and 1952 as a result of the Korean War. Following the armistice in 1953 Sino-Japanese trade began to revive and by 1955 was nearly double the 1950 value. Its share of total Japanese trade, however, has not yet regained the 1950 postwar high.

China's main imports from Japan have been rayon yarn, chemical fertilizers, and other chemicals. Japan has chiefly imported rice, soybeans, and salt and only minor quantities of coking coal and iron ore which were significant imports in prewar years.

The prewar Japanese export surplus with China has now become an import deficit necessitating payment to China of scarce sterling.

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a. Communist China is the same as mainland China.

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**SECRET****Table 2**

**Japanese Postwar Trade**  
**(millions of U.S. dollars)**

<u>Year</u>	<u>Total Exports</u>	<u>Exports to China</u>	<u>Percent of total</u>	<u>Total Exports</u>	<u>Exports from China</u>	<u>Percent of total</u>
1950	820	20	2.4	974	40	4.1
1951	1,355	6	0.4	2,047	22	1.1
1952	1,273	0.6	neg	2,083	15	0.7
1953	1,275	4.5	0.4	2,410	30	1.2
1954	1,689	19	1.2	2,399	41	1.7
1955	2,031	29	1.4	2,475	81	3.3

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Table 3

## Japanese Trade with China

(thousands of current U. S. dollars)

	Average 1934-36	1950	1951	1952	1953	1954	Jan-June 1955
<b>EXPORTS</b>							
Total Exports	170,176	19,632	5,888	522	4,539	19,106	14,593
Foodstuffs	21,728	4	366	190	778	202	393
Chemicals	8,690	704	---	---	1,841	13,442	10,306
Fertilizers and lime		68			1,047	5,121	4,600
Manufactured goods	12,406	15,973	1,927	189	292	4,237	2,914
Yarns and fabric	43,898	1,157	1,725	159	623	3,798	2,486
Iron and steel	21,102	14,758	9	8	179	11	33
Machinery and transport equipment	30,665	2,348	1,412	132	914	725	845
Bicycles and parts	---	---	2,965	12	22	108	---
Miscellaneous manufactured goods	36,687	603	23	11	27	200	189

Table 3 (continued)  
Japanese Trade with China  
(thousands of current U. S. dollars)

	Average 1934-36	1950	1951	1952	1953	1954	Jan-June 1955
<b>EXPORTS</b>							
Total Exports	102,470	39,636	20,341	14,917	29,700	40,770	39,883
Foodstuffs			4,733	3,484	4,221	16,058	11,608
Rice, not in husk			957	---	---	12,522	7,863
Beans, peas, lentils and pulses		16,811	340	1,323	2,065	2,835	3,432
Crude materials, inedible except fuels			13,521	9,887	22,171	22,568	27,532
Oil seeds, oil nuts and oil kernels	33,171	15,197	5,732	4,329	9,340	10,004	18,497
Salt crude	1,863	681	52	44	1,616	3,414	1,680
Iron ore	2,813	2,722	700	743	457	604	384
Cashmere goat hair			n a	390	3,085	1,645	1,129
Cotton	5,796	1,647	334	99	270	353	312
Mineral fuels coal	11,145	6,065	234	724	1,192	222	261
Tung oil			1,222	228	1,326	1,061	481
All other			243	524	133	525	268

**SECRET****C. The Potentials of Sino-Japanese Trade****1. Japan's basic trade position**

Like the United Kingdom, Japan is heavily dependent upon foreign trade. Nearly 20 percent of its food supply and nearly all of its principal industrial raw materials must be imported.

Japan, accordingly, must "export or die." Nevertheless, Japan has been consistently confronted since the war with large trade deficits. Though its trade position finally improved in 1955, the added burden of rearmament and the possible cessation of U.S. military purchases (one of the main sources of invisible receipts) present problems for the future. As a result Japan has been vigorously attempting to expand old and open new markets for its exports.

**2. The lure of the Chinese market**

It is not surprising then to find many Japanese turning toward the once important market in China which they believe to be denied them by trade controls. As China had been Japan's major trading partner, a major importer of textiles (Japan's primary export), and a source of many valuable yet cheap raw materials essential to Japan's export industry, these Japanese believe that there would be a great expansion of trade upon removal of trade controls. This lure of the Chinese market has led recently to a rapid growth of unofficial commercial intercourse with Communist China. However, other Japanese realize that this assessment of the effect of trade controls is superficial and unduly influenced by sanguine hopes.

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The Chinese have portrayed in alluring terms the potentialities of this trade. The Chinese point to their industrialization program as providing a great potential demand for Japanese goods and <sup>claim</sup> to be able to offer in return raw materials at prices below those charged by present suppliers as a result of the proximity of Chinese supplies. The Chinese then indicate that the only reason for Japan's exclusion from this market is the continuation of Japan's trade controls.

Table 4 lists China's important exports and indicates which of these are currently imported by Japan, though not necessarily from China. Table 5 does the same for Japan's important exports.

### 3). Obstacles to expanded Sino-Japanese trade

In fact, trade controls only represent one of several major barriers to a revival of Sino-Japanese trade. Those who clamor for the expansion of trade with China tend to overlook or disregard the enormous changes which the last decade has brought in both China and Japan. The deliberate orientation of the Chinese Communist economy toward the Bloc and the removal of Japanese influence in China are definite obstacles to any restoration of the prewar trade pattern.

Economic factors restricting trade include a shift in Chinese import demands, high prices of some Chinese and Japanese products, payment difficulties, and restricted mobility of international traders. Some of these factors, however, would disappear or be mitigated if normal trade relations were restored.

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Table 4

## Major Commodity Exports of China

<u>Commodity</u>	<u>Important Exports of Japan</u>
Rice	X
Fish	
Meat	
Egg Products	
Tea	
Soybeans and soybean cake	X
Other oilseeds	X
Industrial oils	X (tungoil)
Wool	X
Silk	
Feathers	
Bristles	
Furs	
Tobacco	
Cement	
Salt	X
Iron ore	X
Coal	X
Tungsten	
Tin	
Antimony	

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X Indicates an import by Japan

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Table 5

## Major Commodity Exports of Japan

<u>Commodity</u>	<u>Important Imports of China</u>
Fish	
Raw silk	
Textiles	a/
Cement	
Potteries	
Iron and steel	b/
Copper	X
Textile machinery and parts	b/
Optical instruments	X
Sewing machines	
Railway vehicles and parts	X
Ships and boats	X
Woods, plywood	
Chemical fertilizers	X
Toys	

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X Indicates an import by China

- a. China both imports and exports textiles; the Chinese market, however, is greatly restricted by Government control.
- b. China is probably a net importer, but has recently made offers and sales to the Free World.

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The shift in Chinese import demand from consumer goods to capital goods has almost completely destroyed the market for Japan's major export, textiles. China wants to import yarn or raw cotton rather than finished textiles. Japan's textile industry thus not only has lost a market for its finished product but also a source for raw cotton. Similarly, the development of a Chinese chemical industry to the extent of even exporting items on the international trade control lists is restricting the market in China for Japanese chemicals. China, however, does import metals, machinery, and equipment which Japan exports in large quantities. Though this might appear a firm base for developing trade, China may well prefer to continue its purchases from the Bloc. There is no indication that China is dissatisfied with the availability of goods from the Bloc or the general terms of trade with the Bloc. <sup>1/</sup>

Even if China should desire to shift some of its purchases from the Bloc to the Free World, Japan would not necessarily be the principal recipient of Chinese orders. Japan is still in a disadvantageous position, despite the recent improvement in trade, to compete with other Western countries because of high export prices. Production costs of many commodities are high because of obsolescence of <sup>plant</sup> and high cost of imported raw materials. The Japanese report that the high cost of coal alone is enough to boost the prices of soda, ammonium sulphate, cement, and steel above international prices. If coal and other raw materials like iron ore could be obtained from China at a saving over present costs, export prices could be reduced, but this saving alone may not be sufficient to make them competitive.

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For these reasons greatly increased trade with China is likely to be illusory. Trade controls are not the only or even the most important barrier to the growth of Sino-Japanese trade.

#### 4. Potential Sino-Japanese trade

It is estimated that Chinese exports to Japan could be easily increased from the present level of \$80 million a year to \$100 million a year if CHINCOM controls were removed. The Chinese are capable of exporting coal and iron ore to Japan in greatly increased quantities. It is estimated that Communist China could export an additional one to two million tons of iron ore (largely from Hainan) and an additional one to two million tons of coal without significantly modifying their present trade commitments to the Soviet bloc or their present domestic program. <sup>2/</sup>

If China imported an equivalent amount, Sino-Japanese trade could total \$200 million. Such a level of trade, however, would depend upon relaxation of CHINCOM controls. As total Sino-Japanese trade in 1955 amounted to \$110 million, the loss of trade because of trade controls might have totalled \$90 million.

A higher level of Sino-Japanese trade is possible if China is prepared to divert exports from other markets. The Japanese Economic Planning Board has estimated that Japan would be willing to import the following commodities from China: <sup>3/</sup>

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	<u>tons</u>
soybeans	300,000
coal	2,000,000
rice	100,000
oilseeds	100,000
iron ore	600,000
wheat bran	100,000
soybean cake	50,000
cashmere wool	1,200,000 lbs
salt	300,000
tung oil	4,000
lacquer	900
bristles	500
ramie	100

The Board further estimates that Chinese exports to Japan could increase to about \$120 million within a year or two and then possibly to \$150 million.<sup>4/</sup>

Some of this increase, however, would be at the expense of its other export commitments. In return, if trade controls ended, Japan would be prepared to export iron and steel, textile machinery, optical instruments, vehicles, and other capital goods. It is doubtful, however, that China would be willing to shift from Bloc to Japanese supplies on a large scale. China might well prefer to maintain an export surplus<sup>4/</sup> with Japan as long as Japan is willing to pay for its deficits in foreign exchange. If Japan insisted on a balanced trade with China the value of Sino-Japanese trade might reach \$150 million each way.

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a. While China presently appears to prefer a balanced barter trade, this may be due to efforts to discredit controls.

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## II. Communist China's trade with the Free World

Communist China's trade with the Free World since 1950 as estimated from Chinese Communist sources is summarized as follows: <sup>5/</sup>

	<u>millions of US dollars</u>	<u>Percent of total trade</u>
1950	815	74
1951	925	47
1952	795	28
1953	825	25
1954	690	20
1955	650 <sup>a/</sup>	approx. 20

<sup>a/</sup> preliminary estimate

China's trade with the Free World increased by about 23% in 1955. It is expected that trade with the Free World will continue to grow even with the existing level of trade controls as a consequence of China's recent trade drive in the Free World as well as of the growth of China's economy. China will continue to be dependent upon the Free World for many of its imports, especially chemicals and raw materials such as rubber, fertilizers, and possibly cotton. On the other side, the Free World is still the major or sole market for many of China's exports. In the short-run we may expect the Free World's share of China's trade to be maintained at roughly 20% even with existing trade controls.

No great increase in trade with the Free World following the removal of the international trade controls is foreseen. China appears to be satisfied with the general terms of trade it receives from the Bloc, <sup>6/</sup> although there probably are a few commodities like petroleum which might be obtained at a

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at a substantial saving in freight costs from closer sources in the Free World.

The main increase in Free World trade would follow the removal of the US unilateral trade and financial controls. The reopening of the US, which formerly provided an almost unique market for many of China's important exports - such as tung oil, bristles, feathers, and handicrafts - would enable China to expand considerably its trade with the Free World. Total Sino-Free World trade might increase by up to one-fourth as a result of removing US unilateral controls. <sup>7/</sup>

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### III. Communist China's Trade with Southeast Asia

The value of Communist China's trade with Southeast Asia rose significantly in 1955 but still only <sup>represents</sup> about 10 percent of China's Free World trade. The increase was largely on the Chinese import side. China, however, still maintains a large export surplus with the area.

In 1954 Malaya alone accounted for 70 percent of Southeast Asia's trade with China. This percentage dropped to 50 percent in 1955, largely as a result of increased imports from Burma and Indonesia, the only Southeast Asian countries to have concluded trade agreements with China.

Though Thailand's trade with China is unknown, it is reported that Chinese products are increasingly to be found in Thai markets.

Chinese exports to Southeast Asia are a motley assortment consisting largely of such items as fruits, vegetables, spices, bird eggs, oilseeds, pine resin, plants, seeds, flowers. A small volume of textile and paper and other wood products are also exported.

Trade statistics do not as yet reflect China's claim of increasing exports of industrial products to Southeast Asia. China has reported the shipment of 13,000 tons of steel products to Burma; otherwise the volume of industrial exports to Southeast Asia appears to be insignificant.

China's purchases from Southeast Asia are largely limited to rice and coconut oil, which together accounted for over 80 percent of such purchases in the first three quarters of 1955. Miscellaneous foodstuffs and opira accounted for most of the remaining Chinese imports.

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Table 6

Communist China's Trade with Southeast Asia, 1953-1955<sup>a/</sup>  
 (Thousands of U.S. Dollars)

	1953	1954	Three Quarters 1955
<b>IMPORTS</b>			
Burma	2,810	97	8,126
Indochina	n r	n r	n r
Indonesia	2	2,345	4,351
Malaya	1,692	6,372	3,739
Philippines	d/	n r	500 E/
Thailand	d/	d/	d/
<b>TOTAL</b>	<b>4,704</b>	<b>6,814</b>	<b>16,716</b>
<b>EXPORTS</b>			
Burma	1,621	542	210
Indochina	5,970	7,966	4,817 E/
Indonesia	2,129	3,537	7,725
Malaya	34,364	26,470	27,408
Philippines	2,073	945	288 E/
Thailand	d/	d/	d/
<b>TOTAL</b>	<b>46,177</b>	<b>41,460</b>	<b>40,448</b>

a. Derived from Southeast Asia's Reported Trade

b. Less than \$500,000.

c. Seven months.

d. Trade of small value is carried on through Hong Kong.

Table 7

Communist China's Trade with Southeast Asia as a Percentage of Trade  
 with the Free World, 1953-1955<sup>a/</sup>

	1953	1954	Three Quarters 1955
Imports	1.6	3.0	7.0
Exports	10.6	11.1	11.7
Trade Turnover	7.1	7.5	9.8

a. Derived from Free World's Recorded Trade with China

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The opportunities for increased trade based on the present commodity pattern appear extremely limited. Chinese imports from Southeast Asia are less than 50 percent of its exports to Southeast Asia. The major Chinese import from this area is rice, but China is a net exporter of rice. Chinese demand for coconut oil, its other major import from the area, is limited. On the export side, the similarity of the Chinese and Southeast Asian economies will probably prevent any significant growth in present Chinese exports to Southeast Asia.

Increased trade between Southeast Asia and China depends to a considerable extent upon the export to China of Southeast Asian products presently embargoed to China by CHINCOM controls, mainly petroleum and rubber. Indonesia and Malaya were China's major prewar sources of these products. Whether China would desire to shift from its present suppliers to these sources is not known. China could, however, probably purchase petroleum cheaper from Indonesia than from the Bloc. Such savings might induce China to import up to three or four times the volume of its prewar petroleum imports from Indonesia or at current prices possibly as much as \$50 million a year. China now obtains most of its rubber requirements from Ceylon and will probably continue to until its present agreement with Ceylon expires in 1957. After 1957, China might well purchase larger amounts of rubber from Southeast Asia if not prevented by trade controls. Southeast Asia, accordingly, is potentially able to expand considerably its exports to China and to reverse the present large trade deficit with China if CHINCOM controls were removed.

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Any large increase in Chinese exports to Southeast Asia would probably have to be in textiles or capital goods, the main imports of the Southeast Asian countries. Such exports would be in competition with Japan's exports to Southeast Asia. It is not believed, however, that China is currently in a position to export any but token quantities of such goods.

Though grounds for general competition between China and Japan in the Southeast Asian market do not exist at this time, potential Chinese exports of textiles and iron and steel represent a distinct threat to Japan's trade in this area. At present Japan's textiles and iron and steel amount to most of her exports to Southeast Asia. Japan, however, is a natural trading partner for Southeast Asia. As the major Asiatic industrial power, it, unlike China, provides a large market for the type of goods Southeast Asia produces. Japan's imports do not now and probably would not in the future compete with China's demands on this area. Japan needs Southeast Asian rice, sugar, oilseeds, oils, woods, hemp, iron ore, tin, rubber, and petroleum. China does need the latter two products, but Southeast Asia is capable of supplying these products to both China and Japan.

While Japan is a more natural trading partner for Southeast Asia, China can secure important economic advantages from trading with Southeast Asia. On the import side, petroleum and rubber are important strategic commodities. Through bilateral trade agreements, China is able to assure itself of export markets. Trade with Southeast Asia may also be expected to serve China's political ends, but it is impossible to determine the relative importance of

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economic and political considerations. Possible political objectives include diplomatic recognition, the encouragement of neutralism, and the opportunity to impress Southeast Asians with the rapid industrialization of China.

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Table 8

Japan's Trade with Southeast Asia  
1953-1955

(Millions of U.S. dollars)

	1953	1954	Three Quarters 1955
<b>IMPORTS</b>			
Burma	50.3	63.1	43.5
Indochina	14.7	14.5	4.4
Indonesia	48.9	60.2	53.3
Malaya	63.4	63.8	73.3
Philippines	62.7	67.3	66.5
Thailand	<u>84.7</u>	<u>69.2</u>	<u>58.5</u>
TOTAL	324.7	338.1	299.5
<b>EXPORTS</b>			
Burma	33.1	45.6	31.2
Indochina	7.6	12.9	21.1
Indonesia	105.4	119.7	45.3
Malaya	39.5	47.6	51.6
Philippines	27.5	31.2	36.5
Thailand	<u>52.6</u>	<u>65.1</u>	<u>39.6</u>
TOTAL	265.7	322.1	285.3

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APPENDIX A: SOURCES

All sources other than those listed below can be considered unclassified.

The tables (Tables 1-8), based on official statistics, are unclassified.

1. CIA/RR IP-411, 15 Sep 55, Economic Planning and Development in Communist China, 1952-1960. p. 161. S
2. NIE 100-55, 11 Jan 55, Controls on Trade with Communist China, p. 21. S
3. State, Tokyo, D 303, 30 Sep 55, pp. 3-4. C.
4. Ibid.
5. S/TP, Note on Communist China's Foreign Trade, 1955, Revised, Unpublished, p. 7. S.
6. CIA/RR IP-411, op. cit.
7. Based on NIE 100-55, op. cit.

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CENTRAL INTELLIGENCE AGENCY  
Office of the Chief, Economic Research  
Office of Research and Reports

9 April 1956  
(Date)

MEMORANDUM FOR: Chief, Economic Research  
ATTENTION: Chief, Planning and Review Staff  
SUBJECT: Transmission of Draft Report, Ch./I Project No. 42,1067  
Title: Some Aspects of Chinese Communist and Japanese Trade

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Author: [REDACTED]

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8. Has direct use been made of the intelligence or information of another agency. No.
9. Have all sources been considered in the preparation of this report? No.  
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